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C O N F I D E N T I A L REYKJAVIK 000224

SIPDIS

STATE FOR EUR/FO A/S Dan Fried

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TAGS: [EFIN](#) [ECON](#) [PGOV](#) [IC](#)

SUBJECT: ICELANDIC CENTRAL BANK ASSERTS RUSSIAN LOAN IS 95 PERCENT SURE

REF: Reykjavik 221

Classified By: DCM Neil Klopfenstein for reasons 1.4 (b) and (d).

¶1. (C) Sturla Palsson, Director for International Affairs and Markets at the Icelandic Central Bank told EconOff that the 4 billion Euro loan offered by the Russians is 95 percent certain to happen. The Icelanders have been assured by the Russians that the unprecedented loan will go through and that it has ?been approved by the highest level in Russia.? Palsson is chairing a five person committee from Iceland that will travel to Russia on Monday, October 13. Other participants include two Russian speaking Icelanders (a lawyer and a banker), a representative from the Ministry of Finance and an Economist from the Central Bank. The team will negotiate the term (length of loan) and discuss what documentation or format is needed to complete the loan.

¶2. (C) Since the Acting Foreign Minister yesterday publicly stated the U.S. had rebuffed Iceland?s pleas for help (see reftel), the Embassy has been working to determine with whom the Icelanders spoke in the U.S. and supposedly approached for help in their ongoing financial crisis. Palsson said the Central Bank had contact with the Chairman of the New York Federal Reserve, Timothy Geithner, as well as with additional officials from the Federal Reserve in Washington. They have not talked since last week. Palsson confirmed that the Central Bank had not spoken with anyone at the U.S. Treasury Department. The Ministry of Finance?s Director General of the Economic Department, Thorsteinn Thorgeirsson, said that aside from an October 6 conversation between Treasury Dept Under Secretary Dave McCormack and the Finance Minister, the only other official contact the ministry had with the US Government was with Treasury?s Iceland Desk Officer Lawrence Norton.

¶3. (C) Palsson said the Central Bank?s Governors were talking to their Nordic colleagues, but the Bank has not taken advantage of the swap lines in place. He said there has been talk of loans and a number of other possibilities with the private sector and some in the public sector, but that it was too early to say and they had nothing in hand. Palsson said the goal was to back up liquidity to stabilize the currency and increase or rebuild confidence in the currency. He said, ?Iceland currently has 3 to 4 billion Euro, the Russian loan would take us to 8 billion Euro and 10 to 15 billion Euro would be optimal. At that point we could cover imports of goods and services for two years.?

¶4. (C) Palsson said the Central Bank would be very pleased to hear from the U.S. ?Having the US and the US Government as an ally in a crisis would be hugely important for confidence.? Palsson said that in his capacity as Head of the International Affairs and his role as coordinator between the Icelandic parties for any foreign loans, he would be the primary contact point for outreach from the U.S.

